

Weekly Market Snapshot

Is now a good time to invest in bonds?

Weekly Recap

- Following President Trump's trip to China, it is now time for Russia's President Putin to visit China.
- After several weeks of talks, the EU has approved a trade agreement with the United States.
- Emmanuel Moulin has been approved by the French parliament as the new governor of the Bank of France.
- The price of Brent remains above USD 105 following the conflict between Iran and US/Israel.

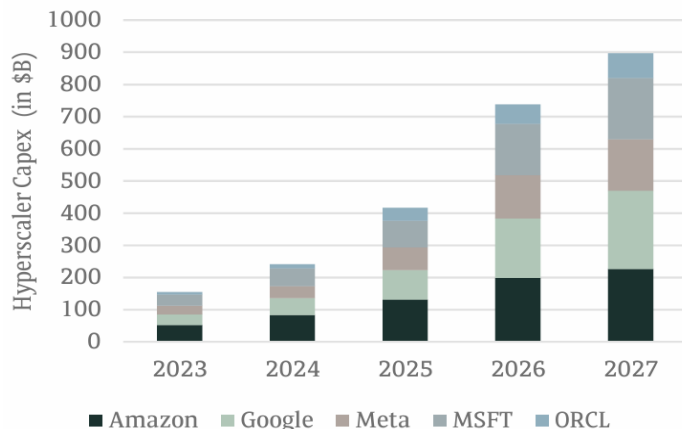
Snapshot

The US/Israel-Iran conflict has driven up Brent crude prices to USD 91/barrel (December futures) and USD 115/barrel (spot). Diesel and jet fuel costs have surged more than 50%, triggering demand destruction in industries such as aviation. Rising oil prices have spilled into broader inflation, with US core CPI at 3.8% YoY and core PPI at 5.2%, exceeding expectations. This inflationary pressure has pushed bond yields higher, with US 10-year Treasuries rising from 4.4% to 4.6%, German Bunds from 3.0% to 3.1%, and Japanese yields from 2.5% to 2.8%, driven by persistent inflation uncertainty.

Higher yields are putting pressure on equity valuations, particularly in the US where the S&P 500 and Nasdaq 100 indices are showing signs of weakness after a strong Q1 rally. Meanwhile, corporate bond yields have surged, with European investment-grade bonds at 3.8% (up from 3.2%) and US yields at 5.5% (up from 4.9%), offering higher long-term return potential. Whether the Strait of Hormuz remains closed (risking recession and supporting bonds) or reopens (easing inflation and aiding bonds), the current environment represents a compelling entry point for fixed income, particularly European investment-grade corporates.

Market	20/05/2026	% Chg 1 Wk	Return Trend	
	Level		1 Month	1 Year
Stocks				
S&P 500	7433	-0.2%	↗	↗
Euro STOXX 50	5976	+2.0%	↗	↗
FTSE 100	10432	+1.0%	↘	↗
Nikkei 225	61671	-1.6%	↗	↗
MSCI EM	1637	-4.6%	↗	↗
Bonds				
	Yield			
US 10Y	4.6	+2.5%	↘	↗
Gm 10Y	3.1	+1.9%	↘	↘
UK 10Y	5.0	-1.5%	↘	↗
Jp 10Y	2.8	+5.1%	↘	↘
IG Credit				
	Yield			
US	5.4	+1.5%	↘	↗
EU	3.6	-0.8%	↘	↗
UK	5.7	-1.6%	↗	↗
Alternatives				
Gold	4534	-2.5%	↘	↗
Copper	6.3	-5.2%	↗	↗
S&P Global Infra	3821	-0.4%	↗	↗
EU REITs	1616	+1.5%	↘	↗
BBG Hedge Fds	1878	-0.0%	↗	↗

AI CAPEX CONTINUES TO RISE, DRIVING AI INFRASTRUCTURE



Source: BNP Paribas, Bloomberg

Hiba Moullem
Investment
Strategist
BNP Paribas Wealth
Management



Edmund Shing, PhD
Global CIO
BNP Paribas Wealth
Management



Geopolitical tensions drive oil price surge and inflation pressures

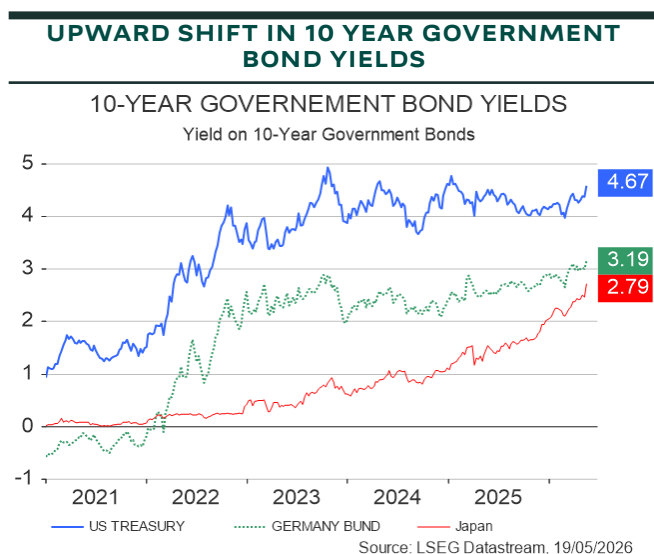
Amid escalating tensions between US/Israel and Iran, in March and April 2026, Brent crude futures for December 2026 delivery have remained within the USD 80–85 per barrel range. However, prices have recently surged to USD 91/barrel, while the spot (dated cash) Brent price has reached USD 115/barrel, maintaining a significant premium over futures.

The impact of rising crude prices has extended to refined products, with US diesel prices jumping to USD 5.60 per gallon from USD 3.70 pre-conflict, which may potentially impact consumers and industries. Meanwhile, jet fuel prices in Singapore have nearly doubled, compelling airlines to reduce long-haul flight schedules given high prices. This shift signals demand destruction as industries adjust to sustained high fuel expenses.

Beyond energy markets, the inflationary effects of rising oil prices are becoming increasingly evident. US April CPI data exceeded expectations, with core inflation registering 3.8% YoY, slightly above the 3.7% consensus forecast. Similarly, core producer prices (PPI), excluding energy, rose to 5.2% YoY, significantly outpacing the 4.3% rate anticipated. Rising fuel costs have not only fuelled energy inflation but are also contributing to broader price pressures, with second-round effects increasingly apparent in core inflation.

Bond Markets react to geopolitical risks

The failure to reopen the Strait of Hormuz, despite recent US-Iran ceasefire talks and diplomatic talks between the US and China, has intensified market volatility, particularly in bond markets.



The inflationary environment has hit the bond markets, pushing yields higher. The US 10-year Treasury yield has climbed from 4.36% in early May to 4.57%, a 20-basis-point increase. Similarly, while Japanese 10-year yields moved from 2.47% to 2.74%. The upward shift in yields—ranging between 10 to 30 basis points across major markets—primarily reflects higher real yields rather than higher inflation expectations, suggesting increased uncertainty as the dominant driver.

Higher bond yields are now weighing on equity valuations, particularly in the US, where price-to-earnings (P/E) ratios remain elevated. After a strong Q1 rally, the S&P 500 and the Nasdaq 100 indices have shown signs of weakness in recent days, pressured by these higher bond yields.

A compelling entry point for bonds?

Against this backdrop, fixed income markets offer attractive opportunities. Investment-grade corporate bond yields have surged, with European yields rising from 3.2% in late February to 3.8%, while US yields have increased from 4.9% to 5.4%—a 50-basis-point jump in both regions since the beginning of the conflict. Given that long-term bond returns tend to align closely with initial yields, the current environment suggests higher expected returns for investors entering the market now. In Europe, even Italian 10-year BTP yields have climbed to 3.8%, significantly higher than pre-conflict levels.

Two potential scenarios could unfold:

- A prolonged closure of the Strait of Hormuz, leading to oil and oil product shortages as well as demand destruction leading to a slower global growth higher risk of a global recession. Historically, a similar environment has favoured bonds which tend to do well when growth slows or the risk of recession increases.
- Alternatively, a swift reopening of the strait could ease oil and gas supply constraints, gradually reducing inflationary pressures and supporting bond performance.

For European investors, the current environment represents a favourable entry point into the fixed income market, particularly European investment-grade corporate bonds as a starting point.



CONNECT WITH US



[wealthmanagement.bnpparibas](https://www.wealthmanagement.bnpparibas)

DISCLAIMER

This marketing document is communicated by the Wealth Management Métier of BNP Paribas, a French Société Anonyme, Head Office 16 boulevard des Italiens, 75009 Paris, France, registered under number 662 042 449 RCS Paris, registered in France as a bank with the French Autorité de Contrôle Prudentiel et de résolution (ACPR) and regulated by the French Autorité des Marchés Financiers (AMF). As marketing material, it has not been prepared in accordance with legal and regulatory requirements aimed at ensuring the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It has not been submitted to the AMF or any other market authority.

This document is confidential and intended solely for the use of BNP Paribas SA, BNP Paribas Wealth Management SA or their affiliates ("BNP Paribas") and the persons to whom this document has been delivered. It may not be distributed, published, reproduced or disclosed by any recipient to any other person, nor may it be quoted or referred to in any document, without the prior consent of BNP Paribas.

This document is provided solely for information and shall not constitute an offer or solicitation in any state or jurisdiction in which such an offer or solicitation is not authorized, or to any person to whom it is unlawful to make such offer, solicitation or sale. It is not, and under no circumstances is it to be construed as, a prospectus.

Although the information provided herein may have been obtained from published or unpublished sources considered to be reliable and while all reasonable care has been taken in the preparation of this document, BNP Paribas does not make any representation or warranty, express or implied, as to its accuracy or completeness and does not accept responsibility for any inaccuracy, error or omission. BNP Paribas gives no warranty, guarantee or representation as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (either legal, regulatory, tax, financial, accounting or otherwise) of any product or transaction. Investors should not place undue reliance on any theoretical historical information regarding such theoretical historical performance. This document may contain or refer to past performance; past performance is no guarantee for future performance.

The information contained in this document has been drafted without prior knowledge of your personal circumstances, including your financial position, risk profile and investment objectives.

Prior to entering into a transaction each investor should fully understand the financial risks, including any market risk associated with the issuer, the merits and the suitability of investing in any product and consult with his or her own legal, tax, financial and accounting advisors before making his or her investment. Investors should be in a position to fully understand the features of the transaction and, in the absence of any provision to the contrary, be financially able to bear a loss of their investment and willing to accept such risk. Investors should always keep in mind that the value of investments and any income from them may go down as well as up and that past performance should not be seen as an indication of future performance. Any investment in a product described herein is subject to the prior reading and understanding of the legal documentation concerning the product, and in particular the one which describes in details the rights and obligations of investors as well as the risks inherent to an investment in the product. Save as otherwise expressly agreed in writing, BNP Paribas is not acting as financial adviser or fiduciary of the investor in any transaction. The information, opinions and projections expressed herein reflect the opinion of their author at the time of writing; they are not to be relied upon as authoritative or taken in substitution for the exercise of judgment by anyone, and are subject to change without notice. Neither BNP Paribas nor any BNP Paribas Group entity accepts any liability whatsoever for any consequences that may arise from the use of information, opinions or projections contained herein.

As distributor of the products described herein, BNP Paribas may receive distribution fees on which you can obtain more information upon specific request. BNP Paribas, their employees or administrators may hold positions in these products or have dealings with their issuers.

By accepting this document, you agree to be bound by the foregoing limitations.

© BNP Paribas (2026). All rights reserved.

Pictures from Getty Images.

